

CADIZ INC
Form 10-K
March 15, 2013

united states
Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2012

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to

Commission File Number 0-12114

Cadiz Inc.
(Exact name of registrant specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

77-0313235
(I.R.S. Employer
Identification No.)

550 S. Hope Street, Suite 2850
Los Angeles, CA
(Address of principal executive offices)

90071
(Zip Code)

(213) 271-1600
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per
share

(Title of Each Class)

The NASDAQ Global Market

(Name of Each Exchange on Which
Registered)

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in rule 405 under the Securities Act of 1933.

Yes ___ No

Indicate by a check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ___ No

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Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§220.405 of this chapter) is not contained herein, and will not be contained to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. []

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Exchange Act Rule 12b-2).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

The aggregate market value of the common stock held by nonaffiliates as of June 30, 2012 was approximately \$101,889,708 based on 14,131,721 shares of common stock outstanding held by nonaffiliates and the closing price on that date. Shares of common stock held by each executive officer and director and by each entity that owns more than 5% of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 8, 2013, the Registrant had 15,452,756 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive Proxy Statement to be filed for its 2013 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report. The Registrant is not incorporating by reference any other documents within this Annual Report on Form 10-K except those footnoted in Part IV under the heading "Item 15. Exhibits, Financial Statement Schedules".

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PART I**ITEM 1. Business**

This Form 10-K contains forward-looking statements with regard to financial projections, proposed transactions such as those concerning the further development of our land and water assets, information or expectations about our business strategies, results of operations, products or markets, or otherwise makes statements about future events. Such forward-looking statements can be identified by the use of words such as “intends”, “anticipates”, “believes”, “estimates”, “projects”, “forecasts”, “expects”, “plans” and “proposes”. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. These include, among others, the cautionary statements under the caption “Risk Factors”, as well as other cautionary language contained in this Form 10-K. These cautionary statements identify important factors that could cause actual results to differ materially from those described in the forward-looking statements. When considering forward-looking statements in this Form 10-K, you should keep in mind the cautionary statements described above.

Overview

We are a land and water resource development company with 45,000 acres of land in three areas of eastern San Bernardino County, California. Virtually all of this land is underlain by high-quality, naturally recharging groundwater resources, and is situated in proximity to the Colorado River and the Colorado River Aqueduct (“CRA”), the major source of imported water for Southern California. Our main objective is to realize the highest and best use of these land and water resources in an environmentally responsible way.

For more than 20 years, we have maintained an agricultural development at our 34,000-acre property in the Cadiz Valley, relying upon groundwater from the underlying aquifer system for irrigation. In 1993, we secured permits to develop agriculture on up to 9,600 acres of the Cadiz Valley property and withdraw more than one million acre-feet of groundwater from the underlying aquifer system. Since that time, we have maintained various levels of agriculture at the property and this operation has provided our principal source of revenue.

In addition to our sustainable agricultural operations, we believe that the long-term value of our land assets can best be derived through the development of a combination of water supply and storage projects at our properties. The primary factors that drive the value of such projects are continued population growth and sustained pressure on water supplies throughout California, including environmental restrictions and regulatory shortages on each of the State’s three primary water sources: the State Water Project, the Colorado River and the Los Angeles Aqueduct. Southern California’s water providers rely on these imported sources for a majority of their water supplies, but deliveries from all three systems have been below capacity over the last several years. Availability of supplies in California also differs greatly from year to year due to natural hydrological variability. For example, State Water Project deliveries are presently limited to just 40% of capacity for 2013 due to ongoing environmental restrictions and below average precipitation. With the region’s population expected to continue to grow, Southern California water providers are seeking new, reliable supply solutions to address anticipated limitations of traditional water supplies and to plan for long-term water needs.

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At present, our water development efforts are primarily focused on the Cadiz Valley Water Conservation, Recovery and Storage Project (“Water Project” or “Project”), which will capture and conserve millions of acre-feet of native groundwater currently being lost to evaporation from the aquifer system beneath our Cadiz Valley property and deliver it to water providers throughout Southern California (see “Water Resource Development”). We believe that the ultimate implementation of this Water Project will create the primary source of our future cash flow and, accordingly, our working capital requirements relate largely to the development activities associated with this Water Project.

We also continue to explore additional uses of our land and water resource assets, including additional agricultural opportunities, renewable energy power generation opportunities, and the development of a land conservation bank on our properties outside the Water Project area.

In addition to these development efforts, we will also pursue strategic investments in complementary business or infrastructure to meet our objectives. We cannot predict with certainty when or if these objectives will be realized.

(a) General Development of Business

We are a Delaware corporation formed in 1992 to act as the surviving corporation in a Delaware reincorporation merger with Pacific Agricultural Holdings, Inc., a California corporation formed in 1983.

As part of our historical business strategy, we have conducted our land acquisition, water development activities, agricultural operations, and land development initiatives to maximize the long-term value of our properties and future prospects (see “Narrative Description of Business”).

Our initial focus was on the acquisition of land and the assembly of contiguous land holdings through property exchanges to prove the quantity and quality of water resources in the Mojave Desert region of eastern San Bernardino County. We subsequently established agricultural operations on our properties in the Cadiz Valley and sought to develop the water resources underlying that site. In 1993, we secured permits to develop up to 9,600 acres of agriculture in the Cadiz Valley and withdraw more than one million acre-feet of groundwater from the underlying aquifer system. The agricultural operations include vineyards, citrus orchards and seasonal vegetables.

The agricultural development demonstrated that the geology and hydrology of the property is also uniquely suited and able to support a project that could offer additional water supplies and water storage opportunities in Southern California.

In 1997, we entered into the first of a series of agreements with the Metropolitan Water District of Southern California (“Metropolitan”), the largest water wholesaler in the region and owner of the nearby Colorado River Aqueduct (“CRA”), to jointly design, permit, and build such a project (the “Water Project” or “Project”). Between 1997 and 2002, we and Metropolitan received substantially all of the state and federal approvals required for the permits necessary to construct and operate the Project, including a Record of Decision (“ROD”) from the U.S. Department of the Interior, which approved the Project and offered a right-of-way for construction of Project facilities, including a 35-mile water conveyance pipeline from the Cadiz Valley property to the CRA across federal lands. In October 2002, Metropolitan’s staff brought the right-of-way matter before its Board of Directors. By a very narrow margin, the Metropolitan Board voted not to accept the right-of-way grant nor proceed with the Project.

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Following Metropolitan's decision, we began to pursue new partnerships and redesigned the Project to meet the changing needs of Southern California's water providers. We invested in significant scientific and technical analysis of the groundwater resources at the Project area as part of this effort, and focused on the safe and sustainable management of the aquifer system beneath the Cadiz Valley property with the goal of providing a reliable, annual water supply for the region. Between 2010 and 2011 six Southern California water providers entered option agreements to participate in the redesigned Project. The Arizona & California Railroad Company, which owns the right-of-way within which the Project's conveyance pipeline will be constructed, is also participating in the Project to receive water for a variety of critical railroad purposes.

In accordance with the California Environmental Quality Act ("CEQA"), we began a new environmental review and permitting process for the Project in 2011 led by Santa Margarita Water District ("SMWD"), one of the Project participants (see "Water Resource Development", below, for a full description of the Water Project). After an extensive review process, the SMWD Board of Directors certified the Final Environmental Impact Report on July 31, 2012 and became the first participating agency to convert its option agreement to a Water Purchase and Sale Agreement for firm supplies from the Project. On October 1, 2012, San Bernardino County, a Responsible Agency under CEQA, also adopted CEQA findings and approved the Project's Groundwater Monitoring, Management and Mitigation Plan ("GMMMP", "Plan") and the withdrawal of 50,000 AF of water per year for 50 years. Following these critical approvals, Project development has transitioned from the environmental entitlement phase to pre-construction development and planning.

We are presently focused on completing the Project's pre-construction phase, including additional Purchase and Sale Agreements with participating agencies, an agreement with Metropolitan regarding conveyance of Project water in the CRA, resolution of pending litigation challenging the CEQA approvals, final design engineering plans, and construction financing arrangements.

In December 2012, we also entered into a new agreement with El Paso Natural Gas ("EPNG") securing the Company's ownership of a 96-mile segment of an existing, idle underground natural gas pipeline extending from the Cadiz Valley to Barstow, California. (See "Existing Pipeline Asset"). The 96-mile pipeline segment has excellent potential to be utilized by the Water Project in Phase II to access the northern and central California water delivery network and provide a new means for exchange, storage and transfer of water supplies in the region. We are presently evaluating plans for further environmental review of Phase II of the Project and the incorporation of the 96-mile pipeline asset into our overall business plans.

(b) Financial Information about Industry Segments

Our primary business is to acquire and develop land and water resources. Our agricultural operations are confined to limited farming activities at the Cadiz Valley property. As a result, our financial results are reported in a single segment. See Consolidated Financial Statements. See also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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(c) Narrative Description of Business

Our business strategy is to pursue the development of our landholdings for their highest and best uses. At present, our development activities include water resource, land and agricultural development.

Water Resource Development

Our portfolio of water resources is located in proximity to the Colorado River and the Colorado River Aqueduct (“CRA”), the principal source of imported water for Southern California, and provides us with the opportunity to participate in a variety of water supply, water storage, and conservation programs with public agencies and other partners.

The Cadiz Valley Water Conservation, Recovery and Storage Project

We own approximately 34,000 acres of land and the subsurface strata, inclusive of the unsaturated soils and appurtenant water rights in the Cadiz and Fenner valleys of eastern San Bernardino County (the “Cadiz/Fenner Property”). The aquifer system underlying this property is naturally recharged by precipitation (both rain and snow) within a watershed of approximately 1,300 square miles. See Item 2, “Properties – The Cadiz/Fenner Valley Property”.

The Cadiz Valley Water Conservation, Recovery and Storage Project (the “Water Project” or “Project”) is designed to supply, capture and conserve billions of gallons of renewable native groundwater currently being lost annually to evaporation from the aquifer system underlying our Cadiz/Fenner Property, and provide a reliable water supply to water users in Southern California. By implementing established groundwater management practices, the Water Project will create a new, sustainable water supply for Project participants without adversely impacting the aquifer system or the desert environment. The total quantity of groundwater to be recovered and conveyed to Project participants will not exceed a long-term annual average of 50,000 acre-feet per year for 50 years. The Project also offers participants the ability to carry-over their annual supply, and store it in the groundwater basin from year to year. A second phase of the Project, Phase II, will offer approximately one million acre-feet of storage capacity that can be used to store imported water supplies.

Water Project facilities required for Phase I of the Project primarily include, among other things:

- High yield wells designed to efficiently recover available native groundwater from beneath the Water Project area;
 - A 43-mile water conveyance pipeline to deliver water from the well field to the CRA; and
 - An energy source to provide power to the well-field, pipeline and pumping plant;

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If an imported water storage component of the project is ultimately implemented in Phase II, the following additional facilities would be required, among other things:

- A pumping plant to pump water through the conveyance pipeline from the CRA to the Project well-field; and
- Spreading basins, which are shallow settling ponds that will be configured to efficiently percolate water from the ground surface down to the water table using subsurface storage capacity for the storage of water.

In general, several elements are needed to implement such a project: (1) a water conveyance pipeline right-of-way from the Water Project area to a delivery system; (2) storage and supply agreements with one or more public water agencies or private water utilities; (3) environmental/regulatory permits; and (4) construction and working capital financing. As described below, the first three elements have been progressed on a concurrent basis. The fourth is dependent on actions arising from the completion of the first three.

(1) A Water Conveyance Pipeline Right-of-Way from the Water Project Area to a Delivery System

In September 2008, we secured a right-of-way for the Water Project's water conveyance pipeline by entering into a lease agreement with the Arizona & California Railroad Company ("ARZC"). The agreement allows for the use of a portion of the railroad's right-of-way to construct and operate a water conveyance pipeline for a period up to 99 years. The pipeline would be used to convey water between our Cadiz Valley property and the CRA in Rice, California. As part of the lease agreement, the ARZC would also receive water from the Project for a variety of railroad purposes, including fire suppression and other safety and maintenance uses.

We are also exploring the potential to utilize an unused natural gas pipeline (as described in "Overview" above) that exists in the Project area, to which we hold an ownership right, as a means to access additional distribution systems. Initial feasibility studies indicate that this pipeline could be used as a component of the Project to distribute water to Project participants or import water for storage at the Project area in Phase II. The potential use of this pipeline by the Project was preliminarily analyzed as part of the Project's Environmental Impact Report ("EIR") (see "Other Development Opportunities").

(2) Storage and Supply Agreements with One or More Public Water Agencies or Private Water Utilities

In 2010 and 2011, we entered into option and environmental cost sharing agreements with six water providers: Santa Margarita Water District ("SMWD"), Golden State Water Company (a wholly-owned subsidiary of American States Water [NYSE: AWR]), Three Valleys Municipal Water District, Suburban Water Systems (a wholly owned subsidiary of SouthWest Water Company), Jurupa Community Services District and California Water Service Company, the third largest investor-owned American water utility. The six water providers serve more than one million customers in cities throughout California's San Bernardino, Riverside, Los Angeles, Orange and Ventura Counties.

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Under the terms of the agreements with the six water providers, upon completion of the Water Project's CEQA review and certification of the Final Environmental Impact Report ("Final EIR"), which occurred on July 31, 2012, each agency has the right to acquire an annual supply of 5,000 acre-feet of water at a pre-determined formula competitive with their incremental cost of new water. In addition, the agencies have options to acquire storage rights in the Water Project to allow them to manage their supplies to complement their other water resources.

Following CEQA certification, SMWD was the first participant to adopt resolutions approving a Water Purchase and Sale Agreement for 5,000 acre-fee of water. The structure of the SMWD purchase agreement calls for an annually adjusted water supply payment of up to \$500/AF including identified income streams, plus their pro rata portion of the capital recovery charge and operating and maintenance costs. The capital recovery charge is calculated by amortizing the total capital investment by the Company over a 30 year term.

Approximately 80% of the water to be conserved annually by the Project is now either under a Water Purchase and Sale Agreement or remains under option. We are currently working with the other participating agencies to convert their option agreements to definitive economic agreements. We are also in discussions with additional water providers interested in acquiring rights to the remaining available Project supplies, as well as with third parties regarding the imported storage aspect of this Project.

(3) Environmental Permits

In order to properly develop and quantify the sustainability of the Water Project, and prior to initiating the formal permitting process for the Water Project, we commissioned environmental consulting firm CH2M HILL to complete a comprehensive study of the water resources at the Project area. Following a year of analysis, CH2M HILL released its study of the aquifer system in February 2010. Utilizing new models produced by the U.S. Geological Survey in 2006 and 2008, the study estimated the total groundwater in storage in the aquifer system to be between 17 and 34 million acre-feet, a quantity on par with Lake Mead, the nation's largest surface reservoir. The study also identified a renewable annual supply of native groundwater in the aquifer system currently being lost to evaporation. CH2M HILL's findings, which were peer reviewed by leading groundwater experts, confirmed that the aquifer system could sustainably support the Water Project.

Further, and also prior to beginning the formal environmental permitting process, we entered into a Memorandum of Understanding ("MOU") with the Natural Heritage Institute ("NHI"), a leading global environmental organization committed to protecting aquatic ecosystems, to assist with our efforts to sustainably manage the development of our Cadiz/Fenner Property. As part of this "Green Compact", we will follow stringent plans for groundwater management and habitat conservation, and create a groundwater management plan for the Water Project.

As discussed in (2), above, we have entered into environmental cost sharing agreements with all participating water providers. The environmental cost sharing agreements created a framework for funds to be committed by each participant to share in the costs associated with the CEQA review work. SMWD served as the lead agency for the review process. ESA Associates, a leading environmental consulting firm, prepared the Water Project's environmental review documentation.

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The CEQA process began in February 2011 with the issuance of a Notice of Preparation (“NOP”) of a Draft Environmental Impact Report (“Draft EIR”) by SMWD. SMWD held two public scoping meetings in March 2011 and released the Draft EIR in December 2011. The Draft EIR analyzed potential impacts to environmental resources at the Project area, including critical resources of the desert environment such as vegetation, mountain springs, and water and air quality. The analysis of the Project considered peer-reviewed technical reports, independently collected data, existing reports and the Project’s state of the art Groundwater Management, Monitoring and Mitigation Plan (“GMMMP”).

SMWD conducted a 100-day public comment period for the Draft EIR, hosting two public comment meetings and an informational workshop in January and February 2012. The public comment period concluded in March 2012. In May 2012, we entered into a Memorandum of Understanding with the County and SMWD, creating the framework for finalizing the GMMMP in accordance with the County’s desert groundwater ordinance.

At the beginning of July 2012, SMWD released the Final EIR and responses to public comments. The Final EIR summarized that, with the exception of unavoidable short-term construction emissions, by implementing the measures developed in the GMMMP, the Project will avoid significant impacts to desert resources. A public hearing was held on July 25, 2012 by the SMWD Board of Directors to take public testimony and consider certification of the Final EIR. On July 31, 2012, the SMWD Board of Directors certified the Final EIR.

Following SMWD’s certification of the Final EIR, the San Bernardino County Board of Supervisors voted on October 1, 2012 to approve the GMMMP for the Project and adopted certain findings under CEQA, becoming the first Responsible Agency to take an approving action pursuant to the certified EIR. San Bernardino County served as a Responsible Agency in the CEQA review process as the local government entity responsible for oversight over groundwater resources in the Cadiz Valley.

Metropolitan, also a Responsible Agency, will take action under CEQA prior to construction regarding the terms and conditions of the Project’s use of the CRA. Project water supplies will enter Metropolitan’s CRA in accordance with its published engineering and design standards and subject to all applicable fees and charges routinely established by Metropolitan for the conveyance of water within its service territory.

(4) Construction and Working Capital

As part of the Water Purchase and Sale Agreement with SMWD referred to in (2), above, SMWD is further authorized to continue next steps with the Company, which includes final permitting, design and construction.

As described above, construction of Phase I of the Project would primarily consist of wellfield facilities at the Water Project site, a conveyance pipeline extending approximately 43 miles along the right-of-way described in (1), above, from the wellfield to the CRA, and an energy source to pump water through the conveyance pipeline between the Project well-field and the CRA. The construction of these facilities will require capital financing, which is expected to be entirely provided with lower-cost senior debt, secured by the new facility assets. The March 2013 refinancing of the Company’s corporate term debt (see Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources) now provides us the flexibility to incorporate Water Project construction financing within our current debt structure.

Existing wells at the Cadiz Valley property currently in use for our agricultural operations will be integrated into the Water Project well-field, reducing the number of wells that must be constructed prior to Project implementation. These wells will be upgraded from diesel power to natural gas power over the next 12 months to advance the overall construction timeline.

Existing Pipeline Asset

As described above (see “General Development of the Business”), we currently hold ownership rights to a 96-mile existing idle natural gas pipeline from the Cadiz Valley to Barstow, California that would be converted for the transportation of water.

In September 2011, we entered into two separate agreements with El Paso Natural Gas (“EPNG”), a subsidiary of Kinder Morgan Inc., and Questar Corporation (“Questar”) providing us with options to purchase approximately 300-miles of idle, natural gas pipelines for \$50 million. The Questar agreement granted us rights to purchase an 80-mile line in Riverside County for \$10 million. Based on our evaluation of these lines we allowed the option agreement with Questar to expire and we pursued plans for the EPNG line as described below.

The option agreement with EPNG granted us rights to purchase a 220-mile pipeline between Bakersfield and Cadiz, California for \$40 million. Initial feasibility studies indicated that upon conversion the 30-inch line could transport between 20,000 and 30,000 acre-feet of water per year between the Water Project area and various points along the Central and Northern California water transportation network. In February 2012, we made a \$1 million payment to EPNG to extend our option to purchase the 220-mile line until April 2013.

In December 2012, we entered into a new agreement with EPNG dividing the 220-mile pipeline in Barstow, California, with the Company gaining ownership rights to the 96-mile eastern segment between Barstow and the Cadiz Valley and returning to EPNG rights to the 124-mile western segment for its own use. The 96-mile eastern portion from the Cadiz Valley to Barstow was identified as the most critical segment of the line for accessing the state’s water transportation infrastructure. The Barstow area serves as a hub for water delivered from northern and central California to communities in Southern California’s High Desert.

In consideration of the new agreement, EPNG reduced the purchase price of the 96-mile eastern segment to a nominal amount of \$1 (one dollar), plus previous option payments totaling \$1.07 million already made by Cadiz. The remaining purchase price of \$1 (one dollar) is payable before expiration of the option period in April 2014. In addition, if EPNG files for regulatory approval of any new use of the 124-mile western segment by December 2015, EPNG will make an additional payment to the Company of \$10 million, payable on the date the application for regulatory approval is filed.

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The 96-mile Cadiz-Barstow creates significant opportunities for our water resource development efforts. Once converted to water use, the pipeline can be used to directly connect the Cadiz area to northern and central California water sources, serving a growing need for additional locations for storage of water south of the Bay Delta region. In addition, the 96-mile pipeline creates new opportunities to deliver water, either directly or via exchange, to potential customers in San Bernardino and Kern Counties, areas which do not currently have an interconnection point with the Project. When both the 96-mile line and the 43-mile pipeline to the CRA become operational, Cadiz would link the two major water delivery systems in California providing flexible opportunities for both supply and storage.

The entire EPNG pipeline was evaluated in the Water Project's EIR during the CEQA process at a programmatic level. Any use of the line would be conducted in conformity with the Project's GMMMP and is subject to further CEQA evaluation (see "Cadiz Valley Water Conservation, Recovery and Storage Project" above).

Agricultural Development

Within the Cadiz/Fenner Property, 9,600 acres have been zoned for agriculture. The infrastructure currently includes seven wells that are interconnected within a portion of this acreage, with total annual production capacity of approximately 13,000 acre-feet of water. Additionally, there are housing and kitchen facilities that support up to 300 employees. If the entire 9,600 acres were developed and irrigated, total water usage would be approximately 40,000 – 50,000 acre-feet per year depending on the crop mix. The underlying groundwater, fertile soil, and desert temperatures are well suited for a wide variety of fruits and vegetables.

Permanent crops currently include 160 acres of vineyard used to produce dried-on-the-vine raisins and 440 acres of lemon orchards. Both of these crops are farmed using sustainable agricultural practices.

We currently derive our agricultural revenues through the sale of our products in bulk or through independent packing facilities. We incur all of the costs necessary to produce and harvest our organic raisin crop. These raisins are then sold in bulk to a raisin processing facility. We also incur all of the costs necessary to produce our lemon crop. Once harvested, the lemons are shipped in bulk to a packing and sales facility.

In 2009, we entered into a lease agreement with a third party to develop 500 additional acres of lemon orchards; approximately one-half of the new orchard acreage has been planted to date. We expect to receive lease income once the new lemon orchards reach commercial production through a profit sharing agreement within the lease.

Agricultural revenues will continue to vary from year to year based on the number of acres in development, crop yields, and prices. We do not expect that our agricultural revenues are likely to be material to our overall results of operations once the Water Project is fully operational. However, our agricultural operations are expected to be maintained in complement with the Water Project to provide added value to Project operations.

Additional Eastern Mojave Properties

We also own approximately 11,000 acres outside of the Cadiz/Fenner Valley area in other parts of the Mojave Desert in eastern San Bernardino County.

Our primary landholding outside of the Cadiz area is approximately 9,000 acres in the Piute Valley. This landholding is located approximately 15 miles from the resort community of Laughlin, Nevada, and about 12 miles from the Colorado River town of Needles, California. Extensive hydrological studies, including the drilling and testing of a full-scale production well, have demonstrated that this landholding is underlain by high-quality groundwater. The aquifer system underlying this property is naturally recharged by precipitation (both rain and snow) within a watershed of approximately 975 square miles and could be suitable for a water supply project, agricultural development or solar energy production. Certain of these properties are located in or adjacent to areas designated by the federal government as Critical Desert Tortoise Habitat and/or Desert Wilderness Areas and are also suitable candidates for preservation and conservation.

Additionally, we own acreage located near Danby Dry Lake, approximately 30 miles southeast of our Cadiz/Fenner Valley properties. The Danby Dry Lake property is located approximately 10 miles north of the CRA. Initial hydrological studies indicate that the area has excellent potential for a water supply project. Certain of the properties in this area may also be suitable for agricultural development and/or preservation and conservation.

Land Conservation Bank

As stated above, approximately 10,000 acres of our properties not currently being developed are located within areas designated by the federal government as Critical Desert Tortoise Habitat and/or Desert Wilderness Areas. We are currently exploring the potential to make certain of these properties available in a land mitigation or conservation bank, which would provide credits that can be acquired by entities that must acquire land to mitigate or offset impactful development in other areas. For example, this bank could potentially service the mitigation requirements of numerous utility-scale solar development projects being considered throughout Riverside and San Bernardino Counties, including projects within the recently approved federal Riverside-East Solar Energy Zone.

Other Opportunities

Over the longer-term, we believe the population of Southern California, Nevada and Arizona will continue to grow, and that, in time, the economics of commercial and residential development or solar energy generation at our properties may become attractive. Moreover, other opportunities in business or infrastructure complementary to our current objectives could provide new opportunities for our business.

We remain committed to the sustainable use of our land and water assets, and will continue to explore all opportunities for environmentally responsible development of these assets. We cannot predict with certainty which of these various opportunities will ultimately be utilized.

Seasonality

Our water resource development activities are not seasonal in nature.

Our farming operations are limited to the cultivation of lemons and grapes/raisins and spring and fall plantings of vegetables on the Cadiz Valley properties. These operations are subject to the general seasonal trends that are characteristic of the agricultural industry.

Competition

We face competition for the acquisition, development and sale of our properties from a number of competitors. We may also face competition in the development of water resources and siting of renewable energy facilities associated with our properties. Since California has scarce water resources and an increasing demand for available water, we believe that location, price and reliability of delivery are the principal competitive factors affecting transfers of water in California.

Employees

As of December 31, 2012, we employed 10 full-time employees (i.e. those individuals working more than 1,000 hours per year). We believe that our employee relations are good.

Regulation

Our operations are subject to varying degrees of federal, state and local laws and regulations. As we proceed with the development of our properties, including the Water Project, we will be required to satisfy various regulatory authorities that we are in compliance with the laws, regulations and policies enforced by such authorities. Groundwater development, and the export of surplus groundwater for sale to entities such as public water agencies, is subject to regulation by specific existing statutes, in addition to general environmental statutes applicable to all development projects. Additionally, we must obtain a variety of approvals and permits from state and federal governments with respect to issues that may include environmental issues, issues related to special status species, issues related to the public trust, and others. Because of the discretionary nature of these approvals and concerns, which may be raised by various governmental officials, public interest groups and other interested parties during both the development and the approval process, our ability to develop properties and realize income from our projects, including the Water Project, could be delayed, reduced or eliminated.

Access to Our Information

Our annual, quarterly and current reports, proxy statements and other information are filed with the Securities and Exchange Commission (“SEC”) and are available free of charge through our web site, www.cadizinc.com, as soon as reasonably practical after electronic filing of such material with the SEC.

Our SEC filings are also available to the public at the SEC website at www.sec.gov. You may also read and copy any document we file at the SEC’s public reference room located at 100 F Street N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

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ITEM 1A. Risk Factors

Our business is subject to a number of risks, including those described below.

Our Development Activities Have Not Generated Significant Revenues

At present, our development activities include water resource, agricultural and solar energy development at our San Bernardino County properties. We have not received significant revenues from our development activities to date and we do not know when, if ever, we will receive operating revenues sufficient to offset the costs of our development activities. As a result, we continue to incur a net loss from operations.

We May Never Generate Significant Revenues or Become Profitable Unless We Are Able to Successfully Implement Programs to Develop Our Land Assets and Related Water Resources

We do not know the terms, if any, upon which we may be able to proceed with our water and other development programs. Regardless of the form of our water development programs, the circumstances under which supplies or storage of water can be developed and the profitability of any supply or storage project are subject to significant uncertainties, including the risk of variable water supplies and changing water allocation priorities. Additional risks include our ability to obtain all necessary regulatory approvals and permits, litigation by environmental or other groups, unforeseen technical difficulties, general market conditions for water supplies, and the time needed to generate significant operating revenues from such programs after operations commence.

The Development of Our Properties Is Heavily Regulated, Requires Governmental Approvals and Permits That Could Be Denied, and May Have Competing Governmental Interests and Objectives

In developing our land assets and related water resources, we are subject to local, state, and federal statutes, ordinances, rules and regulations concerning zoning, resource protection, environmental impacts, infrastructure design, subdivision of land, construction and similar matters. Our development activities are subject to the risk of adverse interpretations or changes to U.S. federal, state and local laws, regulations and policies. Further, our development activities require governmental approvals and permits. If such permits were to be denied or granted subject to unfavorable conditions or restrictions, our ability to successfully implement our development programs would be adversely impacted.

The opposition of government officials may adversely affect our ability to obtain needed government approvals and permits upon satisfactory terms in a timely manner. In this regard, federal government appropriations currently preclude spending for any proposal to store water for the purpose of export or for any activities associated with the approval of rights-of-way on lands managed by the Needles Field Office of the U.S. Bureau of Land Management (the "BLM"). Federal government appropriations also direct the U.S. Department of the Interior (the "DOI") to confirm that the Water Project's proposed use of a portion of ARZC's for its conveyance pipeline is within the scope of ARZC's right-of-way. According to existing federal law and direction from the DOI in Memorandum Opinion M-23075 a railroad has the authority to grant third party uses within its rights-of-way without BLM approval if those uses will serve a railroad purpose. The Project and pipeline will further numerous railroad purposes, including fire suppression and access to water for railroad business operations, and the ARZC has provided information regarding these purposes to the BLM. As a result, we do not believe federal right-of-way approval is required to implement the Project; however, this may be subject to challenge.

Additionally, the statutes, regulations and ordinances governing the approval processes provide third parties the opportunity to challenge proposed plans and approvals. Opposition from third parties will cause delays and increase the costs of our development efforts or preclude such development entirely. In California, third parties have the ability to file litigation challenging the approval of a project, which they usually do by alleging inadequate disclosure and mitigation of the environmental impacts of the project. We are currently named as a real party in interest in eight lawsuits challenging the various Water Project approvals granted to date and expect to be party to various legal proceedings arising in the general course of our business related to the development of the Water Project. While we have worked with representatives of various environmental and third party interests and agencies to minimize and mitigate the impacts of our planned projects, certain groups may remain opposed to our development plans.

Our Failure to Make Timely Payments of Principal and Interest on Our Indebtedness May Result in a Foreclosure on Our Assets

As of December 31, 2012, we had indebtedness outstanding to our senior secured lenders of approximately \$65.26 million. This debt was refinanced in March 2013 (see Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources), and remains secured by our assets. To the extent that we do not make principal and interest payments on the indebtedness when due in 2016, or if we otherwise fail to comply with the terms of agreements governing our indebtedness, we may default on our obligations.

The Conversion of Our Outstanding Convertible Bonds into Common Stock Would Dilute the Percentage of Our Common Stock Held by Current Stockholders

In connection with our debt refinance (see Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources), we issued approximately \$53.5 million in bonds (the “Convertible Bonds”) Principal and accrued interest under the Convertible Bonds can be converted into common stock at \$8.05 per share at the election of our lenders. An election by our lenders to convert all or a portion of principal and accrued interest under these Convertible Bonds into common stock will dilute the percentage of our common stock held by current stockholders up to 6.64 million shares as of March 5, 2013, and up to an additional 2.8 million shares if held to maturity.

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We May Not Be Able To Obtain the Financing We Need To Implement Our Asset Development Programs

Based upon our current and anticipated usage of cash resources, we have sufficient funds to meet our expected working capital needs until mid 2014. We will continue to require additional working capital to meet our cash resource needs until such time as our asset development programs produce revenues. If we cannot raise funds if and when needed, we might be forced to make substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company. We cannot assure you that our current lenders, or any other lenders, will give us additional credit should we seek it. If we are unable to obtain additional credit, we may engage in further financings. Our ability to obtain financing will depend, among other things, on the status of our asset development programs and general conditions in the capital markets at the time funding is sought. Although we currently expect our capital sources to be sufficient to meet our near term liquidity needs, there can be no assurance that our liquidity requirements will continue to be satisfied. Any further equity or convertible debt financings would result in the dilution of ownership interests of our current stockholders.

The Issuance of Equity Securities Under Management Equity Incentive Plans Will Impact Earnings

Our compensation programs for management emphasize long-term incentives, primarily through the issuance of equity securities and options to purchase equity securities. It is expected that plans involving the issuance of shares, options, or both will be submitted from time to time to our stockholders for approval. In the event that any such plans are approved and implemented, the issuance of shares and options under such plans may result in the dilution of the ownership interest of other stockholders and will, under currently applicable accounting rules, result in a charge to earnings based on the value of our common stock at the time of issue and the fair value of options at the time of their award. The expense would be recorded over the vesting period of each stock and option grant.

ITEM 1B. Unresolved Staff Comments

Not applicable at this time.

ITEM 2. Properties

Following is a description of our significant properties.

The Cadiz/Fenner Valley Property

Since 1983, we have acquired approximately 34,000 acres of largely contiguous land in the Cadiz and Fenner valleys of eastern San Bernardino County, California (the “Cadiz/Fenner Property”). This area is located approximately 30 miles north of the Colorado River Aqueduct (“CRA”). In 1984, we conducted investigations of the feasibility of agricultural development of this land. These investigations confirmed the availability of high-quality groundwater in quantities appropriate for agricultural development.

Additional independent geotechnical and engineering studies conducted since 1985 have confirmed that the Cadiz/Fenner Property overlies an aquifer system that is ideally suited for the conservation, recovery and delivery of indigenous groundwater, as well as the storage of conserved or imported water, as contemplated by the Water Project. See Item 1, “Business – Narrative Description of Business – Water Resource Development”.

Other Eastern Mojave Properties

In addition to the Cadiz/Fenner Valley property, we also own approximately 11,000 additional acres in the eastern Mojave Desert portion of San Bernardino County, California at two separate properties.

The first property consists of approximately 9,000 acres in the Piute Valley. This landholding is located approximately 15 miles from the resort community of Laughlin, Nevada, and about 12 miles from the Colorado River town of Needles, California. Extensive hydrological studies, including the drilling and testing of a full-scale production well, have demonstrated that this landholding is underlain by high-quality groundwater. The aquifer system underlying this property is naturally recharged by precipitation (both rain and snow) within a watershed of approximately 975 square miles and could be suitable for a water supply project, agricultural development or solar energy production. Certain of these properties are also suitable candidates for preservation and conservation.

Additionally, we own nearly 2,000 acres near Danby Dry Lake, approximately 30 miles southeast of our Cadiz/Fenner landholdings. Our Danby Dry Lake property is located approximately 10 miles north of the Colorado River Aqueduct. Initial hydrological studies indicate that it has excellent potential for water supply, agricultural development and related uses.

Executive Offices

We lease approximately 7,200 square feet of office space in Los Angeles, California for our executive offices. The lease terminates in January 2016. Current base rent under the lease is approximately \$13,600 per month.

Cadiz Real Estate

In December 2003, we transferred substantially all of our assets (with the exception of our office sublease, and certain office furniture and equipment) to Cadiz Real Estate LLC, a Delaware limited liability company (“Cadiz Real Estate”). We hold 100% of the equity interests of Cadiz Real Estate and, therefore, we continue to hold 100% beneficial ownership of the properties that we transferred to Cadiz Real Estate. The Board of Managers of Cadiz Real Estate currently consists of two managers appointed by us.

Cadiz Real Estate is a co-obligor under our senior secured term loan, for which assets of Cadiz Real Estate have been pledged as security.

Because the transfer of our properties to Cadiz Real Estate has no effect on our ultimate beneficial ownership of these properties, we refer throughout this Report to properties owned of record either by Cadiz Real Estate or by us as “our” properties.

Debt Secured by Properties

Our assets have been pledged as collateral for \$30 million of senior secured debt outstanding as of March 5, 2013. Information regarding interest rates and principal maturities is provided in Note 6 and Note 15 to the Consolidated Financial Statements.

ITEM 3. Legal Proceedings

CEQA Claims Challenging Water Project Approvals

As noted under Item 1A, Risk Factors, third parties have the ability in California to file litigation challenging the approval of a project. We are currently named as a real party in interest in eight (8) lawsuits related to the Water Project approvals granted last year by the Santa Margarita Water District and County of San Bernardino in accordance with the California Environmental Quality Act (“CEQA”). The eight lawsuits have been brought by four plaintiffs and challenge the following three (3) separate Project approvals:

- (1) MOU Approval – two cases challenging the May 2012 approvals of the Memorandum of Understanding between Cadiz, SMWD and the County related to the Project’s Groundwater Management, Monitoring & Mitigation Plan (GMMMP):
 - i. Tetra Technologies v. Santa Margarita Water District (filed May 25, 2012); and
 - ii. Tetra Technologies v. San Bernardino County (filed June 13, 2012).

- (2) EIR Approval – four cases challenging the adequacy of the EIR certified by SMWD on July 31, 2012:
 - i. Tetra Technologies v. Santa Margarita Water District (filed August 28, 2012);
 - ii. Citizens and Ratepayers Opposing Water Nonsense v. Santa Margarita Water District (filed August 31, 2012);
 - iii. Center for Biological Diversity, et. al. v. San Bernardino County (filed August 31, 2012); and
 - iv. Rodrigo Briones, et. al, v. Santa Margarita Water District (filed August 31, 2012.)

- (3) GMMMP Approval – two cases challenging the approval of the GMMMP by the County Board of Supervisors on October 1, 2012:
 - i. Delaware Tetra Technologies, Inc. v. County of San Bernardino, et al (filed October 30, 2012); and
 - ii. Center for Biological Diversity, et al. v. County of San Bernardino, et al (filed November 1, 2012).

All cases named above have been coordinated in Orange County Superior Court. The cases seek various forms of relief, but are primarily focused on causing a reconsideration of the environmental documents and limitation of the Project approvals. The cases are expected to proceed to administrative trial later this year. We cannot predict the outcome of any of the proceedings.

Other Proceedings

There are no other material legal proceedings pending to which we are a party or of which any of our property is the subject.

ITEM 4. Mine Safety Disclosures

Not Applicable.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Our common stock is currently traded on The NASDAQ Global Market ("NASDAQ") under the symbol "CDZI." The following table reflects actual sales transactions for the dates that we were trading on NASDAQ, as reported by Bloomberg LP.

Quarter Ended	High Sales Price	Low Sales Price
2011:		
March 31	\$ 12.20	\$ 11.82
June 30	\$ 10.89	\$ 10.52
September 30	\$ 8.67	\$ 7.90
December 31	\$ 9.71	\$ 9.43
2012:		
March 31	\$ 9.44	\$ 9.12
June 30	\$ 7.33	\$ 7.12
September 30	\$ 10.12	\$ 9.68
December 31	\$ 8.10	\$ 7.50

On March 7, 2013, the high, low and last sales prices for the shares, as reported by Bloomberg, were \$6.92, \$6.69, and \$6.82, respectively.

As of December 31, 2012, the number of stockholders of record of our common stock was 119.

To date, we have not paid a cash dividend on our common stock and do not anticipate paying any cash dividends in the foreseeable future. Our senior secured term loan has covenants that prohibit the payment of dividends.

All securities sold by us during the three years ended December 31, 2012, which were not registered under the Securities Act of 1933, as amended, have been previously reported in accordance with the requirements of Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

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STOCK PRICE PERFORMANCE

The stock price performance graph below compares the cumulative total return of Cadiz Inc. common stock against the cumulative total return of the Standard & Poor's Small Cap 600 NASDAQ U.S. index and the Russell 2000® index for the past five fiscal years. The graph indicates a measurement point of December 31, 2007, and assumes a \$100 investment on such date in Cadiz Inc. common stock, the Standard & Poor's Small Cap 600 and the Russell 2000® indices. With respect to the payment of dividends, Cadiz Inc. has not paid any dividends on its common stock, but the Standard & Poor's Small Cap 600 and the Russell 2000® indices assume that all dividends were reinvested. The stock price performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this annual report on Form 10-K into any filing under the Securities Act of 1933, as amended, except to the extent that Cadiz Inc. specifically incorporates this graph by reference, and shall not otherwise be deemed filed under such acts.

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ITEM 6. Selected Financial Data

The following selected financial data insofar as it relates to the years ended December 31, 2012, 2011, 2010, 2009, and 2008 has been derived from our audited financial statements. The information that follows should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2012 included in Part IV of this Form 10-K. See also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(\$ in thousands, except for per share data)

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Statement of Operations Data:					
Total revenues	\$ 362	\$ 1,019	\$ 1,023	\$ 808	\$ 992
Net loss	(19,574)	(16,837)	(15,899)	(14,399)	(15,909)
Net loss applicable to common stock	\$ (19,574)	\$ (16,837)	\$ (15,899)	\$ (14,399)	\$ (15,909)
Per share:					
Net loss (basic and diluted)	\$ (1.27)	\$ (1.20)	\$ (1.16)	\$ (1.13)	\$ (1.32)
Weighted-average common shares outstanding	15,438	14,082	13,672	12,722	12,014
Balance Sheet Data:					
Total assets	\$ 50,518	\$ 57,998	\$ 48,936	\$ 50,319	\$ 47,412
Long-term debt	63,250	52,032	44,403	36,665	33,975
Common stock and additional paid-in capital	301,193	300,317	282,496	276,884	263,658
Accumulated deficit	(317,961)	(298,387)	(281,550)	(265,651)	(251,252)
Stockholders' equity	\$ (16,768)	\$ 1,930	\$ 946	\$ 11,233	\$ 12,406

Common shares issued and outstanding have increased from 12,453,210 in 2008 to 15,438,961 in 2012. The increase is primarily due to the issuance of shares to investors in private placements, the issuance of shares to investors upon the conversion of preferred stock and warrant exercises, and the issuance of shares to employees, vendors and lenders.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the following discussion contains trend analysis and other forward-looking statements. Forward-looking statements can be identified by the use of words such as "intends", "anticipates", "believes", "estimates", "projects", "forecasts", "expects", "plans" and "proposes". Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. These include, among others, our ability to maximize value from our land and water resources and our ability to obtain new financings as needed to meet our ongoing working capital needs. See additional discussion under the heading "Risk Factors" above.

Overview

We are a land and water resource development company with 45,000 acres of land in three areas of eastern San Bernardino County, California. Virtually all of this land is underlain by high-quality, naturally recharging groundwater resources, and is situated in proximity to the Colorado River and the Colorado River Aqueduct ("CRA"), the major source of imported water for Southern California. Our main objective is to realize the highest and best use of these land and water resources in an environmentally responsible way.

For more than 20 years, we have maintained an agricultural development at our 34,000-acre property in the Cadiz Valley, relying upon groundwater from the underlying aquifer system for irrigation. In 1993, we secured permits to develop agriculture on up to 9,600 acres of the Cadiz Valley property and withdraw more than one million acre-feet of groundwater from the underlying aquifer system. Since that time, we have maintained various levels of agriculture at the property and this operation has provided our principal source of revenue.

In addition to our sustainable agricultural operations, we believe that the long-term value of our land assets can best be derived through the development of a combination of water supply and storage projects at our properties. The primary factors that drive the value of such projects are continued population growth and sustained pressure on water supplies throughout California, including environmental restrictions and regulatory shortages on each of the State's three primary water sources: the State Water Project, the Colorado River and the Los Angeles Aqueduct. Southern California's water providers rely on these imported sources for a majority of their water supplies, but deliveries from all three systems have been below capacity over the last several years. Availability of supplies in California also differs greatly from year to year due to natural hydrological variability. For example, State Water Project deliveries are presently limited to just 40% of capacity from 2013 due to ongoing environmental restrictions and below average precipitation. With the region's population expected to continue to grow, Southern California water providers are seeking new, reliable supply solutions to address anticipated limitations of traditional water supplies and to plan for long-term water needs.

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At present, our water development efforts are primarily focused on the Cadiz Valley Water Conservation, Recovery and Storage Project (“Water Project” or “Project”), which will capture and conserve millions of acre-feet of native groundwater currently being lost to evaporation from the aquifer system beneath our Cadiz Valley property and deliver it to water providers throughout Southern California (see “Water Resource Development”). We believe that the ultimate implementation of this Water Project will create the primary source of our future cash flow and, accordingly, our working capital requirements relate largely to the development activities associated with this Water Project.

We also continue to explore additional uses of our land and water resource assets, including additional agricultural opportunities, renewable energy power generation opportunities, and the development of a land conservation bank on our properties outside the Water Project area.

In addition to these development efforts, we will also pursue strategic investments in complementary business or infrastructure to meet our objectives. We cannot predict with certainty when or if these objectives will be realized.

Water Resource Development

The Water Project is designed to supply, capture and conserve billions of gallons of renewable native groundwater currently being lost annually to evaporation from the aquifer system underlying our Cadiz/Fenner Property, and provide a reliable water supply to water users in Southern California. By implementing established groundwater management practices, the Water Project will create a new, sustainable water supply for Project participants without adversely impacting the aquifer system or the desert environment. The total quantity of groundwater to be recovered and conveyed to Project participants will not exceed a long-term annual average of 50,000 acre-feet per year for 50 years. The Project also offers participants the ability to carry-over their annual supply and store it in the groundwater basin from year to year. A second phase of the Project, Phase II, will offer approximately one million acre-feet of storage capacity that can be used to store imported water supplies.

Water Project facilities required for Phase I of the Project primarily include, among other things:

- High yield wells designed to efficiently recover available native groundwater from beneath the Water Project area;
 - A 43-mile water conveyance pipeline to deliver water from the well field to the CRA; and
 - An energy source to provide power to the well-field, pipeline and pumping plant.

If an imported water storage component of the project is ultimately implemented in Phase II, the following additional facilities would be required, among other things:

- A pumping plant to pump water through the conveyance pipeline from the CRA to the Project well-field; and
- Spreading basins, which are shallow settling ponds that will be configured to efficiently percolate water from the ground surface down to the water table using subsurface storage capacity for the storage of water.

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In general, several elements are needed to implement such a project: (1) a water conveyance pipeline right-of-way from the Water Project area to a delivery system; (2) storage and supply agreements with one or more public water agencies or private water utilities; (3) environmental/regulatory permits; and (4) construction and working capital financing. As described below, the first three elements have been progressed on a concurrent basis. The fourth is dependent on actions arising from the completion of the first three.

(1) A Water Conveyance Pipeline Right-of-Way from the Water Project Area to a Delivery System

In September 2008, we secured a right-of-way for the Water Project's water conveyance pipeline by entering into a lease agreement with the Arizona & California Railroad Company ("ARZC"). The agreement allows for the use of a portion of the railroad's right-of-way to construct and operate a water conveyance pipeline for a period up to 99 years. The pipeline would be used to convey water between our Cadiz Valley property and the CRA in Rice, California. As part of the lease agreement, the ARZC would also receive water from the Project for a variety of railroad purposes, including fire suppression and other safety and maintenance uses.

We are also exploring the potential to utilize an unused natural gas pipeline (as described in "Overview" above) that exists in the Project area, to which we hold an ownership right, as a means to access additional distribution systems. Initial feasibility studies indicate that this pipeline could be used as a component of the Project to distribute water to Project participants or import water for storage at the Project area in Phase II. The potential use of this pipeline by the Project was preliminarily analyzed as part of the Project's Environmental Impact Report ("EIR") (see "Other Development Opportunities").

(2) Storage and Supply Agreements with One or More Public Water Agencies or Private Water Utilities

In 2010 and 2011, we entered into option and environmental cost sharing agreements with six water providers: Santa Margarita Water District ("SMWD"), Golden State Water Company (a wholly-owned subsidiary of American States Water [NYSE: AWR]), Three Valleys Municipal Water District, Suburban Water Systems (a wholly owned subsidiary of SouthWest Water Company), Jurupa Community Services District and California Water Service Company, the third largest investor-owned American water utility. The six water providers serve more than one million customers in cities throughout California's San Bernardino, Riverside, Los Angeles, Orange and Ventura Counties.

Under the terms of the agreements with the six water providers, upon completion of the Water Project's CEQA review and certification of the Final Environmental Impact Report ("Final EIR"), which occurred on July 31, 2012, each agency has the right to acquire an annual supply of 5,000 acre-feet of water at a pre-determined formula competitive with their incremental cost of new water. In addition, the agencies have options to acquire storage rights in the Water Project to allow them to manage their supplies to complement their other water resources.

Following CEQA certification, SMWD was the first participant to adopt resolutions approving a Water Purchase and Sale Agreement for 5,000 acre-fee of water. The structure of the SMWD purchase agreement calls for an annually adjusted water supply payment of up to \$500/AF including identified income streams, plus their pro rata portion of the capital recovery charge and operating and maintenance costs. The capital recovery charge is calculated by amortizing the total capital investment by the Company over a 30 year term.

Approximately 80% of the water to be conserved annually by the Project is now either under a Water Purchase and Sale Agreement or remains under option. We are currently working with other participating agencies to convert their option agreements to definitive economic agreements. We are also in discussions with additional water providers interested in acquiring rights to the remaining available Project supplies, as well as with third parties regarding the imported storage aspect of this Project.

(3) Environmental Permits

In order to properly develop and quantify the sustainability of the Water Project, and prior to initiating the formal permitting process for the Water Project, we commissioned environmental consulting firm CH2M HILL to complete a comprehensive study of the water resources at the Project area. Following a year of analysis, CH2M HILL released its study of the aquifer system in February 2010. Utilizing new models produced by the U.S. Geological Survey in 2006 and 2008, the study estimated the total groundwater in storage in the aquifer system to be between 17 and 34 million acre-feet, a quantity on par with Lake Mead, the nation's largest surface reservoir. The study also identified a renewable annual supply of native groundwater in the aquifer system currently being lost to evaporation. CH2M HILL's findings, which were peer reviewed by leading groundwater experts, confirmed that the aquifer system could sustainably support the Water Project.

Further, and also prior to beginning the formal environmental permitting process, we entered into a Memorandum of Understanding with the Natural Heritage Institute ("NHI"), a leading global environmental organization committed to protecting aquatic ecosystems, to assist with our efforts to sustainably manage the development of our Cadiz/Fenner property. As part of this "Green Compact", we will follow stringent plans for groundwater management and habitat conservation, and create a groundwater management plan for the Water Project.

As discussed in (2), above, we have entered into environmental cost sharing agreements with all participating water providers. The environmental cost sharing agreements created a framework for funds to be committed by each participant to share in the costs associated with the CEQA review work. SMWD served as the lead agency for the review process. ESA Associates, a leading environmental consulting firm, prepared the Water Project's environmental review documentation.

The CEQA process began in February 2011 with the issuance of a Notice of Preparation ("NOP") of a Draft Environmental Impact Report ("Draft EIR") by SMWD. SMWD held two public scoping meetings in March 2011 and released the Draft EIR in December 2011. The Draft EIR analyzed potential impacts to environmental resources at the Project area, including critical resources of the desert environment such as vegetation, mountain springs, and water and air quality. The analysis of the Project considered peer-reviewed technical reports, independently collected data, existing reports and the Project's state of the art Groundwater Management, Monitoring and Mitigation Plan ("GMMMP").

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SMWD conducted a 100-day public comment period for the Draft EIR, hosting two public comment meetings and an informational workshop in January and February 2012. The public comment period concluded in March 2012. In May 2012, we entered into a Memorandum of Understanding with the County and SMWD, creating the framework for finalizing the GMMMP in accordance with the County's desert groundwater ordinance.

At the beginning of July 2012, SMWD released the Final EIR and responses to public comments. The Final EIR summarized that, with the exception of unavoidable short-term construction emissions, by implementing the measures developed in the GMMMP, the Project will avoid significant impacts to desert resources. A public hearing was held on July 25, 2012 by the SMWD Board of Directors to take public testimony and consider certification of the Final EIR. On July 31, 2012, the SMWD Board of Directors certified the Final EIR.

Following SMWD's certification of the Final EIR, the San Bernardino County Board of Supervisors voted on October 1, 2012 to approve the GMMMP for the Project and adopted certain findings under CEQA, becoming the first Responsible Agency to take an approving action pursuant to the certified EIR. San Bernardino County served as a Responsible Agency in the CEQA review process as the local government entity responsible for oversight over groundwater resources in the Cadiz Valley.

Metropolitan Water District of Southern California ("Metropolitan"), also a Responsible Agency, will take action under CEQA prior to construction regarding the terms and conditions of the Project's use of the CRA. Project water supplies will enter Metropolitan's CRA in accordance with its published engineering and design standards and subject to all applicable fees and charges routinely established by Metropolitan for the conveyance of water within its service territory.

(4) Construction and Working Capital

As part of the Water Purchase and Sale Agreement with SMWD referred to in (2), above, SMWD further authorized to continue next steps with the Company, which includes final permitting, design and construction.

As described above, construction of Phase I of the Project would primarily consist of well-field facilities at the Water Project site, a conveyance pipeline extending approximately 43 miles along the right-of-way described in (1), above, from the well-field to the CRA, and an energy source to pump water through the conveyance pipeline between the Project well-field and the CRA. The construction of these facilities will require capital financing, which is expected to be entirely provided with lower-cost senior debt, secured by the new facility assets. The March 2013 refinancing of our corporate term debt (see Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources), now provides us the flexibility to incorporate Water Project construction financing within our current debt structure.

Existing wells at the Cadiz Valley property currently in use for our agricultural operations will be integrated into the Water Project well-field, reducing the number of wells that must be constructed prior to Project implementation. These wells will be upgraded from diesel power to natural gas power over the next 12 months to advance the overall construction timeline.

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Existing Pipeline Asset

We currently hold ownership rights to a 96-mile existing idle natural gas pipeline from the Cadiz Valley to Barstow, California that would be converted for the transportation of water.

In September 2011, we entered into two separate agreements with El Paso Natural Gas (“EPNG”), a subsidiary of Kinder Morgan Inc., and Questar Corporation (“Questar”) providing us with options to purchase approximately 300-miles of idle, natural gas pipelines for \$50 million. The Questar agreement granted us rights to purchase an 80-mile line in Riverside County for \$10 million. Based on our evaluation of these lines we allowed the option agreement with Questar to expire and we pursued plans for the EPNG line as described below.

The option agreement with EPNG granted us rights to purchase a 220-mile pipeline between Bakersfield and Cadiz, California for \$40 million. Initial feasibility studies indicated that upon conversion the 30-inch line could transport between 20,000 and 30,000 acre-feet of water per year between the Water Project area and various points along the Central and Northern California water transportation network. In February 2012, we made a \$1 million payment to EPNG to extend our option to purchase the 220-mile line until April 2013.

In December 2012, we entered into a new agreement with EPNG dividing the 220-mile pipeline in Barstow, California, with the Company gaining ownership rights to the 96-mile eastern segment between Barstow and the Cadiz Valley and returning to EPNG rights to the 124-mile western segment for its own use. The 96-mile eastern portion from the Cadiz Valley to Barstow was identified as the most critical segment of the line for accessing the state’s water transportation infrastructure. The Barstow area serves as a hub for water delivered from northern and central California to communities in Southern California’s High Desert.

In consideration of the new agreement, EPNG reduced the purchase price of the 96-mile eastern segment to a nominal amount of \$1 (one dollar), plus previous option payments totaling \$1.07 million already made by Cadiz. The remaining purchase price of \$1 (one dollar) is payable before expiration of the option period in April 2014. In addition, if EPNG files for regulatory approval of any new use of the 124-mile western segment by December 2015, EPNG will make an additional payment to the Company of \$10 million, payable on the date the application for regulatory approval is filed.

The 96-mile Cadiz-Barstow creates significant opportunities for our water resource development efforts. Once converted to water use, the pipeline can be used to directly connect the Cadiz area to northern and central California water sources, serving a growing need for additional locations for storage of water south of the Bay Delta region. In addition, the 96-mile pipeline creates new opportunities to deliver water, either directly or via exchange, to potential customers in San Bernardino and Kern Counties, areas which do not currently have an interconnection point with the Project. When both the 96-mile line and the 43-mile pipeline to the CRA become operational, Cadiz would link the two major water delivery systems in California providing flexible opportunities for both supply and storage.

The entire EPNG pipeline was evaluated in the Water Project’s EIR during the CEQA process at a programmatic level. Any use of the line would be conducted in conformity with the Project’s GMMMP and is subject to further CEQA evaluation (see “Water Resource Development” above).

Agricultural Development

Within the Cadiz/Fenner Property, 9,600 acres have been zoned for agriculture. The infrastructure currently includes seven wells that are interconnected within a portion of this acreage, with total annual production capacity of approximately 13,000 acre-feet of water. Additionally, there are housing and kitchen facilities that support up to 300 employees. If the entire 9,600 acres were developed and irrigated, total water usage would be approximately 40,000 – 50,000 acre-feet per year depending on the crop mix. The underlying groundwater, fertile soil, and desert temperatures are well suited for a wide variety of fruits and vegetables.

Permanent crops currently include 160 acres of vineyard used to produce dried-on-the-vine raisins and 440 acres of lemon orchards. Both of these crops are farmed using sustainable agricultural practices.

We currently derive our agricultural revenues through the sale of our products in bulk or through independent packing facilities. We incur all of the costs necessary to produce and harvest our organic raisin crop. These raisins are then sold in bulk to a raisin processing facility. We also incur all of the costs necessary to produce our lemon crop. Once harvested, the lemons are shipped in bulk to a packing and sales facility.

In 2009, we entered into a lease agreement with a third party to develop 500 additional acres of lemon orchards; approximately one-half of the new orchard acreage has been planted to date. We expect to receive lease income once the new lemon orchards reach commercial production through a profit sharing agreement within the lease.

Agricultural revenues will continue to vary from year to year based on the number of acres in development, crop yields, and prices. We do not expect that our agricultural revenues are likely to be material to our overall results of operations once the Water Project is fully operational. However, our agricultural operations are expected to be maintained in complement with the Water Project to provide added value to Project operations.

Additional Eastern Mojave Properties

We also own approximately 11,000 acres outside of the Cadiz/Fenner Valley area in other parts of the Mojave Desert in eastern San Bernardino County.

Our primary landholding outside of the Cadiz area is approximately 9,000 acres in the Piute Valley. This landholding is located approximately 15 miles from the resort community of Laughlin, Nevada, and about 12 miles from the Colorado River town of Needles, California. Extensive hydrological studies, including the drilling and testing of a full-scale production well, have demonstrated that this landholding is underlain by high-quality groundwater. The aquifer system underlying this property is naturally recharged by precipitation (both rain and snow) within a watershed of approximately 975 square miles and could be suitable for a water supply project, agricultural development or solar energy production. Certain of these properties are located in or adjacent to areas designated by the federal government as Critical Desert Tortoise Habitat and/or Desert Wilderness Areas and are suitable candidates for preservation and conservation.

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Additionally, we own acreage located near Danby Dry Lake, approximately 30 miles southeast of our Cadiz/Fenner Valley properties. The Danby Dry Lake property is located approximately 10 miles north of the CRA. Initial hydrological studies indicate that the area has excellent potential for a water supply project. Certain of the properties in this area may also be suitable for agricultural development and/or preservation and conservation.

Land Conservation Bank

As stated above, approximately 10,000 acres of our properties not currently being developed are located within areas designated by the federal government as Critical Desert Tortoise Habitat and/or Desert Wilderness Areas. We are currently exploring the potential to make certain of these properties available in a land mitigation or conservation bank, which would provide credits that can be acquired by entities that must acquire land to mitigate or offset impactful development in other areas. For example, this bank could potentially service the mitigation requirements of numerous utility-scale solar development projects being considered throughout Riverside and San Bernardino Counties, including projects within the recently approved federal Riverside-East Solar Energy Zone.

Other Opportunities

Over the longer-term, we believe the population of Southern California, Nevada and Arizona will continue to grow, and that, in time, the economics of commercial and residential development or solar energy generation at our properties may become attractive. Moreover, other opportunities in business or infrastructure complementary to our current objectives could provide new opportunities for our business.

We remain committed to the sustainable use of our land and water assets, and will continue to explore all opportunities for environmentally responsible development of these assets. We cannot predict with certainty which of these various opportunities will ultimately be utilized.

Results of Operations

(a) Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

We have not received significant revenues from our water resource and real estate development activity to date. Our revenues have been limited to our agricultural operations. As a result, we continue to incur a loss from operations. We had revenues of \$0.4 million for the year ended December 31, 2012, and \$1.0 million for the year ended December 31, 2011. The net loss totaled \$19.6 million for the year ended December 31, 2012, compared with a net loss of \$16.8 million for the year ended December 31, 2011. The higher 2012 loss was primarily due to additional legal and consulting fees related to water development efforts in connection with the certification of the Final Environmental Impact Report, litigation costs and due diligence costs associated with the feasibility of converting the natural gas pipelines, which we currently have an ownership right, to water transportation facilities (see "Existing Pipeline Asset" above).

Our primary expenses are our ongoing overhead costs (i.e., general and administrative expense) and our interest expense. We will continue to incur non-cash expenses in connection with our management and director equity incentive compensation plans.

Revenues. Revenue totaled \$0.4 million during the year ended December 31, 2012, compared to \$1.0 million during the year ended December 31, 2011. 2012 revenues included \$0.1 million of revenues related to citrus crop sales, which were down \$0.8 million from the prior year due to significant weather related damage to citrus crops in the 2012 growing season, and \$0.3 million of revenues related to raisin sales, which were up \$0.2 million from the prior year primarily due to a larger raisin crop in 2012 in comparison to the 2011 raisin crop.

Cost of Sales. Cost of sales totaled \$0.5 million during the year ended December 31, 2012, compared with \$1.4 million during the year ended December 31, 2011. The lower cost of sales for the year ended December 31, 2012, related largely to the lower lemon harvesting related to the smaller size of the 2012 lemon crop which was due to significant weather-related damage.

General and Administrative Expenses. General and administrative expenses during the year ended December 31, 2012, totaled \$12.6 million compared with \$10.4 million for the year ended December 31, 2011. Non-cash compensation costs related to stock and option awards are included in general and administrative expenses.

Compensation costs from stock and option awards for the year ended December 31, 2012, totaled \$0.4 million compared with \$2.4 million for the year ended December 31, 2011. The expense reflects the vesting schedules of the stock and option awards under the 2009 Equity Incentive Plan.

Other general and administrative expenses, exclusive of stock-based compensation costs, totaled \$12.2 million in the year ended December 31, 2012, compared with \$8.1 million for the year ended December 31, 2011. The increase in general and administrative expenses in 2012 was primarily due to additional legal and consulting fees related to water development efforts in connection with the certification of the Final Environmental Impact Report, litigation costs and due diligence costs associated with the feasibility of converting the natural gas pipelines, which we currently have an ownership right, to water transportation facilities (see "Existing Pipeline Asset" above).

Depreciation. Depreciation expenses totaled \$0.4 million for the year ended December 31, 2012, compared to \$0.4 million for 2011.

Interest Expense, net. Net interest expense totaled \$6.8 million during the year ended December 31, 2012, compared to \$5.7 million during 2011. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Year Ended December 31,	
	2012	2011
Interest on outstanding debt	\$ 3,589	\$ 3,261
Amortization of debt discount	3,123	2,372
Amortization of deferred loan costs	108	72
Interest income	(3)	(1)
	\$ 6,817	\$ 5,704

The interest on outstanding debt increased from \$3.3 million to \$3.6 million due to the increase in debt outstanding under our new working capital facility in 2012.

Prior Debt Refinancings. Deferred loan costs, which are primarily legal fees, are amortized over the life of each loan agreement. In June 2006, we refinanced our term loan with ING Capital LLC (“ING”) with a new senior secured convertible term loan with a different lender. As a result, \$408 thousand of legal fees was capitalized and is amortized over the 7-year life of the loan agreement. An additional \$73.5 thousand of lender fees was capitalized when the term loan was modified in October 2010. These fees are amortized over the remaining life of the term loan. In June 2009 and October 2010, the term loan was modified as to certain of its conversion features. As a result of these convertible debt arrangements, the change in conversion value between the original and modified instrument totaled approximately \$3.2 million, which was recorded as additional debt discount with a corresponding amount recorded as additional paid-in capital. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan as additional interest expense. In connection with the modification transaction in October 2010, we recorded a derivative liability related to the conversion option. The fair value of the derivative liability was marked-to-market at the end of each reporting period with the associated change in fair value recorded as other income (expense). On July 25, 2011, we entered into an amendment to the facility eliminating the availability to the Company of the unused \$3 million portion of the facility. As a result, the conversion option related to the unused portion of the facility no longer exists and a derivative liability is no longer being recorded. On October 30, 2012, we increased the capacity of the term loan with an additional \$5 million facility. As a result of this transaction, an additional \$42 thousand of lender fees was capitalized and is amortized over the remaining term of the loan. Concurrently with the funding of the facility, we issued warrants to the lenders to purchase shares of common stock. The value of the warrants totaled approximately \$533 thousand and was recorded as additional debt discount with a corresponding amount recorded as additional paid-in capital.

(b) Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

We had revenues of \$1.0 million for the year ended December 31, 2011, and \$1.0 million for the year ended December 31, 2010. The net loss totaled \$16.8 million for the year ended December 31, 2011, compared with a net loss of \$15.9 million for the year ended December 31, 2010. The higher 2011 loss was primarily due to additional legal and consulting fees related to water development efforts and higher net interest expense, partially offset by lower stock based non-cash compensation costs related to options issued under the 2009 Equity Incentive Plan.

Revenues. Revenue totaled \$1.0 million during the year ended December 31, 2011, compared to \$1.0 million during the year ended December 31, 2010. 2011 revenues included \$0.9 million of revenues related to citrus crop sales, which were up \$0.2 million from the prior year primarily due to the larger and longer 2010-2011 lemon harvest season in comparison to the 2009-2010 lemon harvest season, and \$0.1 million of revenues related to raisin sales, which were down \$0.2 million from the prior year primarily due to a smaller raisin crop in 2011 in comparison to the 2010 raisin crop.

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Cost of Sales. Cost of sales totaled \$1.4 million during the year ended December 31, 2011, compared with \$0.9 million during the year ended December 31, 2010. The higher cost of sales for the year ended December 31, 2011, related largely to the higher lemon harvesting related to the larger size of the 2010-2011 lemon crop and the earlier timing of the 2011-2012 lemon crop, which incurred substantially all costs in 2011.

General and Administrative Expenses. General and administrative expenses during the year ended December 31, 2011, totaled \$10.4 million compared with \$10.8 million for the year ended December 31, 2010. Non-cash compensation costs related to stock and option awards are included in general and administrative expenses.

Compensation costs from stock and option awards for the year ended December 31, 2011, totaled \$2.4 million compared with \$4.0 million for the year ended December 31, 2010. The expense reflects the vesting schedules of the stock and option awards under the 2009 Equity Incentive Plan.

Other general and administrative expenses, exclusive of stock-based compensation costs, totaled \$8.1 million in the year ended December 31, 2011, compared with \$6.8 million for the year ended December 31, 2010. The higher 2011 expenses were primarily due to additional legal and consulting fees related to water development efforts.

Depreciation. Depreciation expenses totaled \$0.4 million for the year ended December 31, 2011, compared to \$0.3 million for 2010.

Interest Expense, net. Net interest expense totaled \$5.7 million during the year ended December 31, 2011, compared to \$4.7 million during 2010. The following table summarizes the components of net interest expense for the two periods (in thousands):

		Year Ended December 31,	
	2011	2010	
Interest on outstanding debt	\$	3,261	\$ 2,782
Amortization of debt discount		2,372	1,918
Amortization of deferred loan costs		72	42
Interest income		(1)	(8)
	\$	5,704	\$ 4,734

The interest on outstanding debt increased from \$2.8 million to \$3.3 million due to the increase in interest rate from 5% to 6% per annum on the senior secured convertible term loan and the increase in debt outstanding under the new working capital facility. 2011 interest income decreased to \$1 thousand from \$8 thousand in the prior year due to lower short-term interest rates and a more conservative investment policy.

Prior Debt Refinancings. Deferred loan costs, which are primarily legal fees, are amortized over the life of each loan agreement. In June 2006, we refinanced our term loan with ING Capital LLC (“ING”) with a new senior secured convertible term loan with a different lender. As a result, \$408 thousand of legal fees was capitalized and is amortized over the 7-year life of the loan agreement. An additional \$73.5 thousand of lender fees was capitalized when the term loan was modified in October 2010. These fees are amortized over the remaining life of the term loan. In June 2009 and October 2010, the term loan was modified as to certain of its conversion features. As a result of these convertible debt arrangements, the change in conversion value between the original and modified instrument totaled approximately \$3.2 million, which was recorded as additional debt discount with a corresponding amount recorded as additional paid-in capital. Such debt discount is accreted to the redemption value of the instrument over the remaining term of the loan as additional interest expense. In connection with the modification transaction in October 2010, we recorded a derivative liability related to the conversion option. The fair value of the derivative liability was marked-to-market at the end of each reporting period with the associated change in fair value recorded as other income (expense). On July 25, 2011, we entered into an amendment to the facility eliminating the availability to the Company of the unused \$3 million portion of the facility. As a result, the conversion option related to the unused portion of the facility no longer exists and a derivative liability is no longer being recorded.

Liquidity and Capital Resources

(a) Current Financing Arrangements

As we have not received significant revenues from our development activities to date, we have been required to obtain financing to bridge the gap between the time water resource and other development expenses are incurred and the time that revenue will commence. Historically, we have addressed these needs primarily through secured debt financing arrangements, private equity placements and the exercise of outstanding stock options and warrants. We have also worked with our secured lenders to structure our debt in a way which allows us to continue development of the Water Project and minimize the dilution of the ownership interests of common stockholders.

We refinanced our term debt in March 2013. See Note 15 to the Consolidated Financial Statements – “Subsequent Events”. The major components of the refinancing included:

1. A \$30 million senior term loan secured by the underlying assets of the Company that will accrue interest at 8% per annum and require no principal or interest payments before maturity in March 2016; and
2. A \$53.5 million convertible bond that will accrue interest at 7% per annum with no principal or interest payments required before maturity in March 2018; and
3. Approximately \$17.5 million in new working capital provided as part of the convertible bond issuance.

We believe that by breaking our debt into two components, we now have the flexibility to incorporate project financing for the Water Project, as necessary, into our current debt structure. While the new \$30 million senior term loan would be required to be taken out by any necessary project financing, the \$53.5 million convertible bond has been designed to allow project financing to be placed ahead of it in terms of priority. The \$17.5 million of new working capital provides us with the resources to continue to move through our pre-construction phase, including resolution of outstanding administrative CEQA litigation, facility engineering and design, and the finalization of water supply purchase agreements with all Water Project participants.

The new financing replaced a term loan that was first entered into in June 2006, consisting of a \$36.4 million five-year zero coupon senior secured convertible term loan with Peloton Partners LLP (through an affiliate) and another lender (the "Term Loan"). On April 16, 2008, we were advised that Peloton had assigned its interest in the Term Loan to an affiliate of Lampe Conway & Company LLC ("Lampe Conway"), and Lampe Conway subsequently replaced Peloton as administrative agent of the loan. During the period the Term Loan was outstanding, it was expanded and modified and consisted of the following tranches as of December 31, 2012:

Tranche	Principal Amount (in thousands)	Conversion Price (per share)	Potential Number of Shares Issuable
Tranche A-1	\$ 4,550	\$ 7.00	650,000
Tranche A-2a	2,411	\$ 35.00	68,889
Tranche A-2b	7,419	Non-Convertible	-
Tranche B-1	2,856	\$ 13.50	211,565
Tranche B-2	2,190	\$ 12.50	175,239
Tranche B-3a	6,810	\$ 35.00	194,558